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The Manufacturers Hanover
Financial Digest
Economic Commentary, Selected Financial Data, and Business Indicators

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It's The Little Things In Life . . .

Every month after the government releases the Consumer Price Index, newspapers and television newscasts carry stories discussing the reining in of inflation. This notion is reinforced by the pronouncements of most economists in their speeches and newsletters. If this is true, one might wonder while reading yet another article on the victory over inflation, why does it seem as if one is always paying more for one small item after another?

In this era of moderate inflation, one still finds many price increases and each is a nuisance. According to the CPI, prices have risen a total of five percent in the past two years. Most people would question whether their spending has gone up only five percent since 1984. While sipping our morning cup of coffee which used to cost $1.79/lb. back then and now sells for $3.19/lb., the editors of the Financial Digest decided recently to compare our expenditures during the course of an average week, with purchases made two years ago.

Before hopping on the train, we bought a weekly news magazine and were confronted with the first nuisance increase of the day: an 11 percent price rise over 1984. And a pack of chewing gum is up over 33 percent. Worse still, because of the time we spent calculating these price increases, we missed our train. To avoid being late for work, we opted for a cab instead of the subway for our ride downtown. Another shock awaited us: the price of a 40-block cab ride had risen 45 percent. We hopped out of the cab. Walking, at least for now, is still free. By the time we reached our office, the 40-block trek had made us thirsty. A cold can of soda seemed the answer, but another nuisance increase popped up. The price of a can of soda went up 15.4 percent, from 65 cents to 75 cents.

. . . That Make Inflation . . .

Lunch time arrived, and we were hungrier than usual after our morning of walking and figuring out price changes. We walked over to a fast food restaurant and ordered a large hamburger and milk shake. The price of our meal had risen almost 10 percent. Perhaps we should have gotten a slice of pizza and a beer. But pizza prices have risen 32 percent and the cost of a bottle of imported beer is up over 15 percent—which is enough to make anyone want a drink. With lunch over, we walked back toward our office, and suddenly our feet felt as if they were scraping on concrete. All our walking had worn down our shoes. The last time we had shoes resoled was two years ago, and it cost $25. This year's price is $27, an eight percent increase.

Later, with the workday finished, we decided to treat ourselves to some evening entertainment. But

PRICE INCREASES OF SELECTED SMALL-TICKET CONSUMER GOODS*

Item	Sep. 1984	Sep. 1986	Percent Change
Ground coffee (1 lb.)	$ 1.79	$ 3.19	78.2%
Liquid detergent (22 oz.)	1.29	1.89	46.5
Toothpaste (5 oz.)	.99	1.39	40.4
Taxi (2-mile ride)	3.10	4.25	37.1
Orange juice (½ gallon)	1.69	2.29	35.5
Pack of gum	.45	.60	33.3
Pizza slice	.95	1.25	31.6
Bananas (1 lb.)	.39	.49	25.6
Ground round beef (1 lb.)	1.99	2.49	25.1
Woman's haircut	20.00	25.00	25.0
Pint of ice cream	1.09	1.35	23.9
Movie	5.00	6.00	20.0
Shoe shine	1.25	1.50	20.0
Peanut butter (18 oz. jar)	1.79	2.09	16.8
Paperback book	3.75	4.35	16.0
Bottle of imported beer	1.30	1.50	15.4
Dry cleaning of a suit	6.00	6.75	12.5
News magazine	1.75	1.95	11.4
Fast food 4-oz. hamburger and milk shake	2.63	2.88	9.5
Full sole and rubber heels	25.00	27.00	8.0
Weighted average increase**	–	–	23.9%

*Prices are at New York City retail levels and are used as examples only.
**Includes items not listed in table.

Source: MH survey

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the cost of a drink in a hotel lounge has gone up by 10 percent (without tip), and a ticket to a movie now costs $6 instead of $5, a 20 percent increase. We chose instead to buy a best-selling paperback book and spend the night reading. However, in doing so, we found that the cost of an evening of popular literature had increased 16 percent.

Before heading home, we stopped off at the grocery store to pick up such essentials as toothpaste, bananas, ice cream and orange juice. In 1984, the bill would have been $4.16, but the cash register today shows $5.52, a 33 percent increase. More bad news awaited us when we checked our mailbox at home. Our monthly telephone bill went up a whopping 45 percent, in large part because of the breakup of the phone company.

. . . A Nuisance

Totaling all these price increases, we discovered that the government's measure of inflation and our own tally were widely divergent. Could the government be spreading disinformation about inflation? How could the CPI be up only five percent, while spending for our daily needs has risen by more than four times that amount in two years?

Part of the reason lies in the way the CPI is compiled. Large weights in the monthly index are given to prices of such big-ticket items as household

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/5/86	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	197.724	+ 1.687	+18.886
Loans to Depository Inst.	1.082	+ .367	− .043
Float	.542	+ .230	+ .173
Total Reserve Bank Credit	216.176	+ 2.354	+21.067
Treasury Deposits with Federal Reserve Banks	2.919	− .413	− .188
Currency in Circulation	202.799	+ .850	+13.013
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	164.174	− 1.912	+37.878
	11/5/86		
Member Bank Reserves:			
Total Reserves Held	52.473	− .142	+ 8.399
Excess (Deficiency)	.908	+ .154	+ .106
Net Free Reserves	.467	− .038	+ .160
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (10/27/86)	704.2	+ 15.1‡	+ 14.2‡
M2 (September '86)	2,740.7	+ 10.5	+ 8.3
M3 (September '86)	3,424.8	+ 10.3	+ 8.7
Domestic Nonfinancial Debt (2nd Q'86)	7,181.0	+ 11.5	+ 13.1

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 11/7/86	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.31%	5.42%	5.51%
* Federal Agencies	5.52	5.55	5.60
* Municipal Notes—High Grade (46% Taxable Equivalent)	5.74	6.67	7.59
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	5.80	5.80	5.95

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	5.80%	Dec.	5.75%
15- 29 days	5.80	Jan.	5.72
30- 59 days	5.80	Feb.	5.68
60- 89 days	5.78	Mar.	5.67
90-179 days	5.60	Apr.	5.66
180-239 days	5.50	May	5.62
240-270 days	5.50		

‡Industrial Paper—Prime			
30- 89 days	5.79%	†Federal Funds Effective Rate	5.95%
90-120 days	5.75		

‡Discount basis. *Subject to availability. †Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'86	$ 4,234	$ 4,176	$ 4,031
Gross National Product (1982 Dollars)*	3rd Q'86	$ 3,683	$ 3,661	$ 3,604
Percent Change, Annual Rate	3rd Q'86	2.4	0.6	4.1
Change in Consumer Prices*	Sep '86	3.6%	2.4%	2.4%
Change in Producer Prices*	Sep '86	4.8%	3.6%	− 7.2%
Civilian Employment (Thousands of Persons)†	Oct '86n	110,240	109,891	107,813
Unemployment as % of Civilian Labor Force†	Oct '86n	7.0%	7.0%	7.1%
Personal Income*	Sep '86	$ 3,512	$ 3,500	$ 3,334
Leading Indicators Composite Index (1967=100)†	Sep '86n	180.1	179.3r	170.6
Industrial Production Index (1977=100) †	Sep '86	125.3	125.1	124.3
Net Change in Consumer Installment Credit †	Sep '86n	$ 8.37	$ 3.39r	$ 10.33
U.S. Merchandise Trade Balance	Sep '86n	−$ 12.56	−$ 14.03r	−$ 11.68
Plant and Equipment Expenditures*	4th Q'86	$383.99(a)	$380.52(a)	$397.88
Private Housing Starts (Thousands of Units)*	Sep '86	1,680	1,818	1,653
New Construction Expenditures*	Sep '86n	$ 385.7	$ 380.4r	$ 361.3
Total Business Inventories †	Aug '86	$ 591.9	$ 591.9	$ 579.5
Total Business Sales †	Aug '86	$ 429.1	$ 427.5	$ 428.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

furnishings and cars, although we know of no one who buys these items every month. Additionally, the recent plunge in prices of energy products, which make up 12 percent of the CPI, has dramatically slowed the rise of the entire index.

The other part of the explanation lies in the fact that many items and services have, indeed, risen much faster than the increases in the overall CPI. Using weights provided by the Bureau of Labor Statistics, it is possible to construct an inflation rate for these small-ticket items. For a selection of 36 items commonly purchased in a day or week, prices appear to have jumped by a startling 24 percent over the last two years (see table on page 1)! However, these items account for about 15 to 20 percent of people's total yearly spending, so they carry only a small weight in the CPI, even though the average consumer buys these products frequently.

Certainly, none of these price increases will ruin anyone's budget, but each of them is a nuisance. So even though the government's data indicates that consumer price inflation is moderate, we now accept such information with a fair amount of skepticism. For many consumers, the CPI is not the final word on the rate of inflation. In reality, price increases on basic essentials shape our perception of how fast prices are rising. And there does not seem to have been much of a slowdown here in recent years. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/22/86)	152,750	– 291	– 4,996
New York City (10/29/86)	33,495	– 252	– 269
Commercial Paper (10/29/86)	335,410	– 890	+49,368

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/22/86)	259,012	– 146	+ 5,037
New York City (10/29/86)	58,199	– 499	– 1,466

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/22/86)	749,205	– 1,406	+ 57,033
New York City (10/29/86)	161,770	– 1,765	+ 9,526

Financial Markets

	Friday 11/7/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.44%	+ .13	– 2.02
180-Day Bills†	5.63	+ .16	– 2.01
Longest Bills†	5.81	+ .11	– 1.99
Recent Issues:			
6 3/8s 10/31/88	6.31	+ .10	
6 3/4s 9/30/90	6.78	+ .11	
7 1/4s 11/15/96 (When Issued)	7.38	NA	
7 1/2s 11/15/16 (When Issued)	7.61	NA	
Municipals:			
Bond Buyer–20 Bond Index* (11/6/86)	6.94%	0.0	– 1.74
Blue List Total ($ Million)	$1,676	+ $166	+ $ 98
30-Day Visible Supply ($ Million)	$2,228	– $285	– $5,870
Total	$3,904	– $119	– $5,772
Corporates:			
Moody's Aa Composite (11/6/86)	9.29%	+ .03	– 1.89
30-Day Visible Supply ($ Million)	$4,112	+ $215	+ $2,244
Stocks:			
Dow-Jones Averages:			
Industrials	1,886.53	+ 8.72	+ 482.17
Transportation	845.00	+ 9.62	+ 166.86
Utilities	209.81	+ .40	+ 47.88
65 Stocks	746.65	+ 4.58	+ 177.21
N.Y.S.E. Composite Index	141.50	– 4.25	+ 29.55
N.Y.S.E. Avg. Daily Vol. for Week (000's)	158,552	+ 1,568	+ 40,948

* 46% Taxable equivalent 12.85%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/7/86	Week Ago
Overnight	5.88%	5.78%
1 month	5.94	5.81
3 month	5.94	5.81
6 month	5.94	5.81
1 year	6.06	5.94
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.24%	7.34%
Long Term (7 to 15 yrs.)	8.15	8.26

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/7/86)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02335	42.820
Canada	.7205	1.3879
Denmark	.1288	7.7650
France	.1485	6.7325
Germany	.4845	2.0640
Italy	.0007015	1425.50
Japan	.006124	163.30
Mexico	.001220	819.50
Netherlands	.4287	2.3327
Switzerland	.5811	1.7210
U.K.	1.4260	.7013

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